

**Washington State
Liquor Control Board
Strategic Plan 2005-2007**

**Retail Services, Purchasing Services
Distribution Center**

Overview

Three closely linked divisions carry out and provide support for the wholesale and retail operation: *Retail Services, Purchasing Services and the Distribution Center*. These divisions continually share and analyze data on prices, shipping and storage strategies, retail sales trends, revenue and a myriad of additional business details.

Retail Services provides direction and support for the 161 state and 154 contract liquor stores. Each state store has a manager, an assistant manager and full- and part-time retail clerks. Altogether there are about 690 full-time-equivalent employees in the retail and wholesale operation, or nearly 62 percent of the agency's 1,100 employees.

Purchasing Services continually analyzes product consumption trends and recommends the listing and de-listing of products based on sales, price, type and many other considerations. State stores stock a varied inventory of spirituous liquor – much larger than that found in similar-sized private stores in non-control states.

The Distribution Center stores and ships all products to the state and contract stores. Stores place orders with the DC weekly. The DC, a fully automated warehouse and shipping facility, handles more than 45 million units annually and has a storage capacity of 585,000 cases.

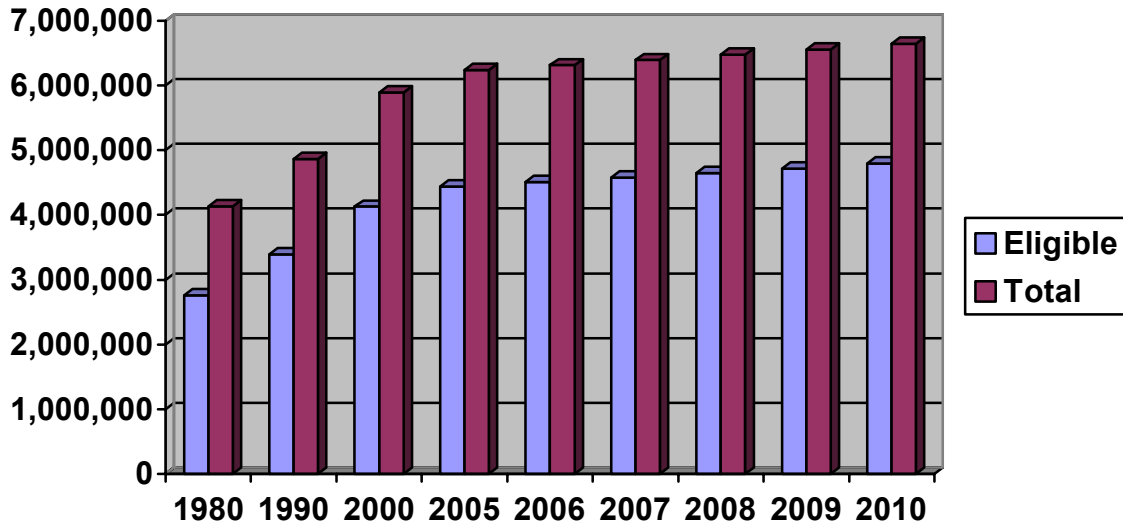
Market Conditions

Washington's population is 6.1 million. About 4.4 million of the state's citizens are 21 years or older. This drinking-age population is expected to reach 4.8 million by 2010, when the total population reaches 6.6 million.

More drinking-age adults will produce greater product demand. If current trends continue, revenue return will increase. Increased demand for licenses to sell liquor by the drink will produce greater revenue, as well. The agency believes it can meet this increased demand and maximize revenue if long-overdue investments are made in this biennium.

The chart on the next page shows population growth trends and predictions, along with growth in the number of drinking-age adults.

Total Population/Drinking-Age Population 1980-2010



Population Growth Projections in Millions

	1980	1990	2000	2005	2006	2007	2008	2009	2010
Total	4.132	4.866	5.894	6.233	6.310	6.389	6.470	6.553	6.639
21+	2.759	3.387	4.127	4.439	4.507	4.577	4.647	4.718	4.791

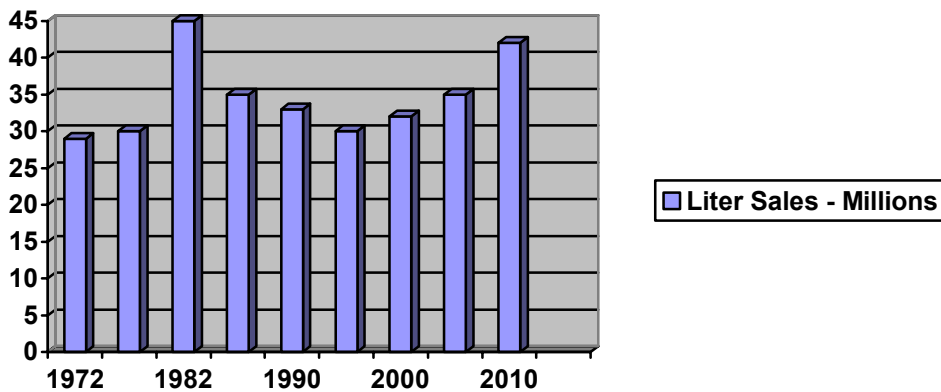
Consumption Trends

Consumption trends as measured by the number of liters sold have been moving steadily up since 1998, paralleling the growth in drinking-age population. Liter sales by 2010 are projected to be about 42 million bottles annually.

In the mid-1980s, the price of liquor increased sharply due to increases in the federal excise tax and Washington State spirit taxes. Tougher DUI laws were enacted and the government and media called attention to the rising health and social costs of alcohol abuse. This produced declining levels of consumption.

The price of spirits has been relatively inelastic since the increases in the 1980s. Consequently, price is not playing a major factor in the consumption rate. Overall, Washington consumers continued a recent trend of 'trading up,' or making purchases in the higher price ranges of almost every beverage alcohol category. This buying pattern produces greater revenues for the state, especially when increasing bottle sales are factored.

Number of Liters Sold 1972-2010



Other Washington state consumption indicators for FY 2003:

- Spirit sales increased \$24.5(M) or 5 percent.
- Spirit case sales increased 3.1 percent.
- Spirit liter sales increased 2.7 percent.
- Case sales in the flavored vodka grew 26.5 percent.
- Case sales of flavored rum grew 12.3 percent.
- Wine sales increased \$800,000 or 2.1 percent.
- Wine case sales increased 2.1 percent.
- Wine liter sales increased 2.5 percent.
- Beer is losing some market share to wine.
- Nearly 40 percent of drinking age adults purchase wine.
- Red wine is the most popular wine sold by a slight margin.

National Consumption Trends

Washington's consumption trends mirrored a larger national upswing in spirit sales driven by flavorful and high-end products such as flavored vodkas, rums and tequilas; varietal wines; and the ongoing popularity of imported beers. Nationally, spirit sales climbed 3.8 percent in 2003, reaching more than 159 million 9-liter cases. Wine consumption climbed 4.9 percent to the highest levels since the 1980s. Overall, consumers spent \$8 billion more on spirits in 2003 than they did in the previous year. Total retail sales increased \$145.4 billion on essentially the same level of case sales, reflecting the 'trading-up' trend.

Revenue Growing Steadily

Revenue forecasts for FY 2004 show more than \$245 million being returned to the state by the WSLCB. Revenues have increased at a healthy rate averaging more than six percent since 1997. If revenue growth continues to average six percent annually, more than \$3 billion in revenue will be returned to the state in the next decade (2004-2014).

REVENUE DISTRIBUTION 1994-2003 (in millions)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Cities	27.0	25.7	25.5	26.2	30.3	31.0	29.6	33.0	34.0	35.7
Counties	6.8	6.4	6.6	7.2	7.4	7.1	8.2	8.5	8.5	9.0
State	99.9	96.8	95.9	98.5	100.7	101.7	107.9	113.9	117.1	121.6
Border Areas	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.3
DSHS	4.7	5.2	5.4	5.4	5.2	5.3	5.3	5.6	5.8	6.1
SPI	0.2	0.2	0.2	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Drug Enforcement	11.4	9.9	9.7	9.6	10.1	11.8	10.4	10.2	10.7	11.0
Health Care	11.9	11.6	20.3	20.7	29.2	37.6	35.8	35.3	37.6	38.7
Universities	0.7	0.8	0.8	0.9	0.8	0.9	0.7	0.6	0.8	0.8
Rapid Transit	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.3
Wine Commission	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.4
Youth Tobacco Prevention									0.1	0.1
WSP Toxicology									0.2	0.2
Total	163.0	157.1	164.7	168.5	184.2	196.5	197.9	207.9	215.9	224.4

Challenges to Future Revenue Growth

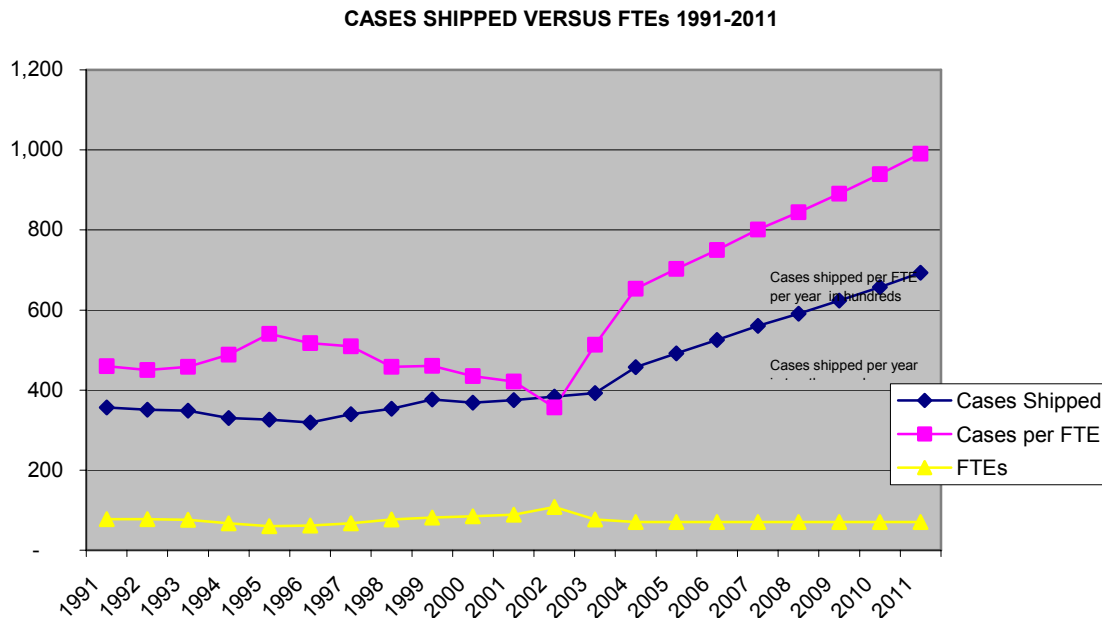
- *State stores are intended to meet un-stimulated demand.*
- *State law forbids the agency to advertise or engage in product promotion through discounting.*
- *The state's two-year appropriation cycle slows the ability to respond quickly to a wide range of business challenges – to open new stores and relocate existing stores, for example.*
- *The uncertainty of the appropriations process significantly diminishes the agency's ability to plan and perform strategically.*
- *Employee hours allocated to support retail sales have been reduced.*
- *The Distribution Center will reach its operational limit in two years.*

Distribution Center Capacity Issues

The Retail Business Plan emphasizes the need for adding capacity to the Distribution Center during the next biennium. The WSLCB distributes spirits and wine to its more than 310 state and contract stores from the DC in Seattle. Designed for a maximum daily shipping volume of 17,500 cases, the warehouse is nearing its capacity during peak shipping periods. Shipping volumes are expected to exceed capacity by FY 2005, outstripping both equipment and labor resources. The chart below shows the trend in cases shipped with projections to 2011.

The DC is an important link in the wholesale and retail operation because it permits the state to operate a bailment inventory system. With bailment, the state is not charged for product until it is shipped to the stores. This defers substantial up-front costs, permitting improved cash flow.

Construction of an addition to the current facility is needed in the next biennium. Not acting now will negatively impact future revenue generation capability.



The chart above shows the number of cases shipped in blue, the number shipped per FTE in pink and the number of FTEs per cases shipped in yellow at the DC between 1991 and 2011.

It is important to note that the ratio of FTEs to cases shipped in FY 1998-2002 rose because the agency was actually operating two separate warehouses while the current DC was under construction. If these years are not included, the number of FTEs have either declined or remained constant while the number of cases shipped has continued to increase.

Conclusion

Market trends indicate excellent growth potential during the next decade and beyond, as the population of drinking-age adults increases. Spirit prices have remained relatively stable, but customers tend to be 'trading up' to higher-priced brands more, which augurs well for revenue. Additional store capacity, more hours for store employees, new stores and new types of stores, better technology support, better in-store marketing, a DC expansion, new shelf management practices and improved customer service all can lead to improved revenue production. Investments are needed now to provide a firm foundation for these revenue-producing strategies.

Goal/Objective/Strategy

Goal:	<i>Maximize revenues to the citizens of Washington.</i>
Objective:	Implement Retail Business Plan.
Strategy:	Open additional stores, relocate existing stores, improve store efficiency and expand Distribution Center.
Background:	State stores must become an enterprise model following best business practices. Continuous improvement in retail services is needed to ensure an expanded revenue stream.
Solution:	<p>The Retail Business Plan for 2005-2007 will:</p> <ul style="list-style-type: none">• <i>Develop new stores and relocate existing stores.</i>• <i>Reduce inventory management costs.</i>• <i>Develop additional capacity for the Distribution Center.</i>• <i>Provide expanded customer-service training.</i>• <i>Implement technology improvement.</i>• <i>Increase operating efficiencies.</i>• <i>Improve wine merchandising.</i>
Stakeholders:	Customers, employees, the public, elected officials, state agencies, producers, distributors, licensees, suppliers, military, tribes, the Distillery Representatives Association of Washington (DRAW) and the Washington Beer and Wine Wholesalers Association (WBWWA)
Partners:	Business Advisory Council (BAC), DRAW, unions, retail employees
Lead Divisions:	Retail Services, Distribution Center and Purchasing Services
Participating Divisions:	Financial, Policy, Legislative and Media Relations, Information Technology Services
Start:	Ongoing
Finish:	Ongoing

Goal/Objective/Strategy

Goal:	<i>Maximize revenues to the citizens of Washington.</i>
Objective:	Ensure efficient re-supply of state/contract stores.
Strategy:	Expand Distribution Center capacity/optimize operations.
Background:	The amount of product shipped to state stores grew more than 4 percent annually during the last decade. Original plans for the Distribution Center, drawn up in the early 1990s, called for a 2 percent annual increase. Demand will exceed the capacity of the current facility within two years. Additional plant capacity is needed now.
Solution:	Plant expansion and additional shipping capacity.
Stakeholders:	The public, elected officials, WSLCB stakeholders, WSLCB employees, licensees, vendors, distributors, manufacturers, inbound/outbound carriers, WSLCB stores, customers
Partners:	Suppliers, freight carriers and information technology vendors
Lead Divisions:	Retail Services/DC, Financial, Purchasing, Information Technology Services
Participating Divisions:	Human Resources
Start:	In progress
Finish:	June 2007

Goal/Objective/Strategy

Goal:	<i>Maximize revenues to the citizens of Washington.</i>
Objective:	Create more orderly and secure agency funding mechanisms.
Strategy:	Develop legislation permitting the reinvestment of agency revenue in Retail Services.
Background:	The current appropriations process slows the agency's ability to respond to market trends by delaying innovative business practices. Proposals to expand product line, store outlets and improve service levels within existing outlets require a lengthy approval process that limits the agency's potential to increase revenue.
Solution:	Develop new, more flexible reinvestment strategies to strengthen the agency's ability to respond to market forces and maximize revenue.
Stakeholders:	The public, Office of the Governor and Legislature
Partners:	OFM – Risk Management; legislative staff and Business Advisory Council (BAC)
Lead Division:	Financial
Participating Divisions:	Retail Services and Policy, Legislative and Media Relations
Start:	In progress
Finish:	June 2007

Goal/Objective/Strategy

Goals:	<i>Maximize revenues to the citizens of Washington Modernize existing business systems and improve service delivery.</i>
Objective:	Improve the technology foundation of the retail, wholesale and finance operations.
Strategy:	Plan, acquire and install new technology supporting these interdependent functions.
Background:	<p>The MBS plan, approved for implementation in FY 2004, was designed to improve outdated point-of-sale equipment and software in the stores, improve customer transaction time, facilitate the exchange of accounting and inventory data, improve store-wide communication and create a broader, more strategic technology foundation for wholesale, retail and finance operations.</p> <p>The plan suffered a setback in 2003 when the vendor was unable to deliver a functioning system within the required timeline. Subsequently, the agency terminated the contract, took possession of hardware and software already purchased and began work to 1) install the point-of-sale equipment using the existing computer network; and 2) seek help from a third-party vendor to install new software to run the new system more efficiently.</p>
Solution:	Implement systems and process similar to those used throughout private industry.
Stakeholders:	Elected officials, state agencies, employees, independent contractors, industry stakeholders, customers and the public
Partners:	OFM, DIS and industry stakeholders
Lead Division:	Retail Services and Financial
Participating Divisions:	Information Technology Services
Start:	In progress
Finish:	Ongoing

Goal/Objective/Strategy

Goal:	<i>Recruit, develop, train and value a high-quality, diverse workforce</i>
Objective:	Improve employee safety and loss awareness.
Strategy:	Implement a loss prevention pilot safety program for stores.
Background:	The agency has not conducted a formal safety and security program for liquor store employees since 1982. Loss prevention concepts and techniques have evolved significantly to meet increasingly sophisticated challenges. Training is needed to ensure the safety of store employees and customers and to protect the state's investment.
Solution:	Identify retailers and loss prevention professionals to share current concepts, tools, and techniques. Explore agency's ability to combine new techniques with current practices via a pilot safety program. Monitor results, make recommendations, and identify resources to formally incorporate successful techniques into statewide program.
Stakeholders:	Customers, legislators, industry partners, community interest groups; employees; unions; state agencies; criminal justice system; licensees; cities/counties
Partners:	LCB employees, contract liquor store employees, other retailers and loss prevention professionals
Lead Divisions:	Retail Services, Financial
Participating Divisions:	Licensing and Regulation, Enforcement and Education and Human Resources
Start:	In progress
Finish:	June 2007